Mouwasat Medical Services Co

4Q2018 Results Review

4 March 2019

السعودي الفرنسي كابيتال
Saudi Fransi Capital

Gross Margin Aligning to Peers?

SAR 85 — 12-Month Target price

Buy — Recommendation

Could it be that Mouwasat was impacted by negative price revision? Revenues during a seasonally strong quarter plus new bed addition, declined to SAR 414 mln – marking an end to double-digit topline growth since 4Q15. As margins compressed sharply, we wonder if Mouwasat is finally aligning to sector trends. Preliminary results raised more questions than answers - pending full financials we maintain Buy and SAR 85 target price, representing 14.9x 2020E EV/EBITDA.

Surprise revenue decline

Mouwasat announced SAR 414 mln (-4% Y/Y) 4Q revenues, missing our and consensus estimates. Ordinarily 3Q is slower due to Hajj and summer holidays, therefore the -1% sequential decline is surprising, particularly since the 220-bed Khobar hospital has been operational for c. 4 months. Patient figures or factors behind weaker revenue were not disclosed in skeletal preliminary commentary. While other providers have been affected by competitive pricing environment, Mouwasat had so far bucked the trend. Second, we expect MEAHCO's upcoming Dammam hospital to raise bed supply which may impact Mouwasat's patient traffic.

Sharp gross margin contraction

Gross margin sharply contracted during the quarter to 39% from 49% in year ago period. We highlight that other KSA providers have witnessed dramatic margin contraction, suggesting low- to mid-30% range as the new normal. In Mouwasat's case, operating costs at Khobar likely outpaced revenues, squeezing margins. Unclear if price revision is a contributing factor.

Earnings miss consensus

At first glance, opex appears in the neighborhood of SAR 65 mln, down from SAR 103 mln in 4Q17. We expected higher SG&A to reflect new hospital and associated personnel costs. Attributable net income of SAR 85 mln (-14% Y/Y and +5% Q/Q) missed our SAR 97 mln estimate. Key takeaways from 4Q performance include: 1) lower revenues despite bed addition and 2) sharp margin contraction. If these are attributable to price revision and reflective of new normal, we see potential for further share price weakness, although index flows may mitigate.

Cash dividend of SAR 1.75

Mouwasat announced SAR 1.75 DPS for 2018 (supplemented with bonus shares), versus SAR 3.00 DPS for 2017. The Company may be anticipating higher working capital needs in the coming quarters as Khobar gains traction and additional 60 beds come online at the relocated Madinah hospital. Pending full results, we maintain Buy rating and SAR 85 target price.

SAR mln	4Q18	4Q18E	4Q17	*Y/Y Chg*	3Q18	*Q/Q Chg*	*Variance*	Consensus
Sales	414	477	431	*-4%*	417	*-1%*	*-13%*	459
Gross profit	162	231	211	*-23%*	195	*-17%*	*-30%*	
Gross margin	*39%*	*48%*	*49%*		*47%*			
Operating profit	99	106	108	*-9%*	90	*9%*	*-7%*	
Operating margin	*24%*	*22%*	*25%*		*22%*			
Net income	85	97	99	*-14%*	81	*5%*	*-12%*	98
Net margin	*21%*	*20%*	*23%*		*19%*			*21%*
EPS (SAR)	0.85	0.97	0.99	*-14%*	0.81	*5%*	*-12%*	0.98

Stock Details

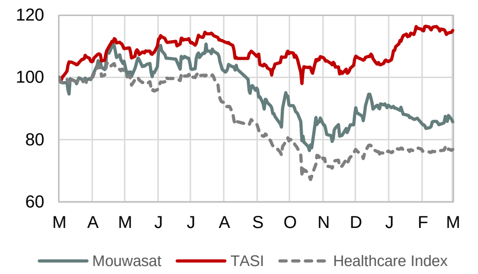
Last Close Price	SAR	75.90
Upside to target	%	12.0
Market Capitalization	SAR mln	7,590
Shares Outstanding	mln	100
52-Week High - Low	SAR	101.00 – 62.00
Price Change (YTD)	%	(5.7)
3-Mth ADTV	thd	100
EBITDA 2019E	SAR mln	559
Reuters / Bloomberg	4002.SE	MOUWASAT AB

SAR mln	2018	2019E	2020E
Revenues	1,677	1,957	2,197
Gross Margin	*46%*	*48%*	*47%*
EBIT	404	446	490
Operating Margin	*24%*	*23%*	*22%*
Net Income	360	425	461
Net Margin	*21%*	*22%*	*21%*
EPS (SAR)	3.60	4.25	4.61
DPS (SAR)	1.75	3.00	3.50

Price Multiples

	2018	2019E	2020E
P / E	21.1x	19.1x	17.6x
EV / EBITDA	16.0x	14.6x	13.4x
P / S	4.5x	3.9x	3.5x
P / B	4.4x	4.2x	4.0x

1-Year Share Performance (rebased)



Source: Bloomberg, Tadawul, SFC

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Research and Advisory Department

Rating Framework

BUY

Shares of company under coverage in this report are expected to outperform relative to the sector or the broader market.

HOLD

Shares of company under coverage in this report are expected to perform inline with the sector or the broader market.

SELL

Shares of company under coverage in this report are expected to underperform relative to the sector or the broader market.

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